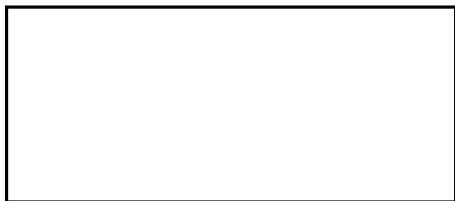
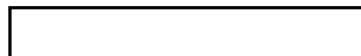


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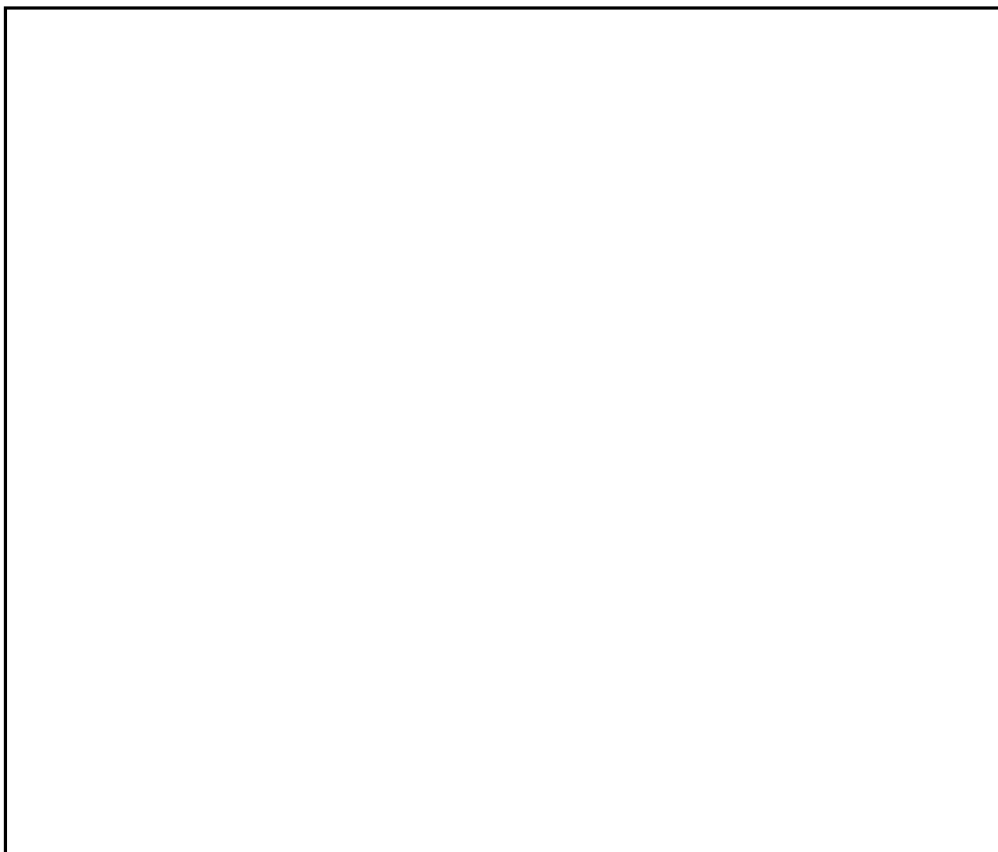
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DOCUMENT NO. 54
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NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 26 Dec 79 REVIEWER: 

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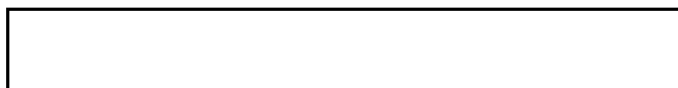
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1. CHOU EN-LAI SPEECH TO NATIONAL PEOPLE'S CONGRESS

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The official Chinese Communist summary of Chou En-lai's 30,000-word address to the National People's Congress on 26 June suggests that Chou's annual report did little more than reaffirm established positions on questions of foreign and domestic policy.

Chou declared that during the past year the international situation has been developing along lines "beneficial to peace" despite constant threats posed by American "imperialist policy." As major factors in this development, he cited "reasonable" Soviet proposals for arms limitation, the growing importance of the Asian-African countries, the increasing Japanese demands for "independence," and the Taiwan riots.

In line with Peiping's continuing emphasis on Sino-Soviet bloc unity, Chou asserted that solidarity had grown, not weakened, following the Hungarian rebellion. Facts, he said, prove that unity based on "proletarian internationalism and equality" cannot be destroyed by provocations. He praised Soviet economic assistance for Communist China, declaring that Peiping's achievements were "inseparable" from Soviet help and "expert guidance." He expressed "heartfelt thanks" for Russian aid and promised that Communist China would continue to "learn seriously" from the Soviet Union and all other Socialist countries.

On the economic side, Chou revealed that overspending in 1956 and a poor agricultural showing, which he blamed on the "worst weather in several decades," had resulted in a budget deficit of \$750,000,000 at the end of that year. Surpluses left over from previous years covered only a part of the deficit, forcing the regime to borrow and issue currency to cover the remainder. This is the first year since 1950 that the regime has admitted the need of a currency issue to cover a deficit. Chou

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said that the Chinese Communists plan to achieve a balance in the 1957 budget by increasing revenues and reducing expenditures, including a cut of 20 percent for investment in fixed assets.

On domestic political matters, Chou admitted that the Communists had executed about one in six "counterrevolutionaries" arrested before 1952. Communist statements at the time indicated a much higher ratio than this and a total greater than the 800,000 executions reported in unofficial versions of Mao's "secret" speech. Chou defended the "few cases" which had been mishandled by claiming that Communist achievements were "fundamental," while errors were "individual."

Chou repeated last year's promise of a government decentralization program which would encourage local initiative "under central leadership." He warned that the regime will not tolerate any efforts to undermine the "people's democratic dictatorship," the only system, he said, which can insure the "victory of socialism." He reiterated the standard Chinese Communist exhortation against "doctrinaire" methods but asserted the necessity for refuting the views of "revisionists" that the "universal truths of Marxism" and Soviet experience should be repudiated as "mere dogma."

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2. GOVERNMENT REORGANIZATION, POLITICAL CRISIS SEEN IMMINENT IN SOUTH KOREA

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[REDACTED] Ambassador Dowling reports that South Korea's Liberal Party is expected shortly to start action on a constitutional amendment which will deprive Vice President Chang Myon of the right to succeed to the presidency. He states that this could result in the most serious internal political crisis in Korea since the presidential election crisis in 1952.

The Liberal Party proposes to establish a modified parliamentary system by restoring the office of prime minister and providing that the incumbent would succeed to the presidency pending a new election within 90 days. The office of the vice president would be abolished at the end of the present term. Until that time, Chang would preside over an upper house to be composed of representatives selected by the lower house and local assemblies. The cabinet and prime minister would be responsible to the lower house.

Dowling reports that President Rhee apparently has not yet given his final approval, but he believes this is only a temporary delay. The Liberals hope to announce the amendment in July, and secure passage in August.

The opposition Democrats are expected to resist vigorously any attempt to undermine Chang's position, and may resort to violent demonstrations. They are not completely united on the issue, however, since many are attracted by the prospect of a coalition government under a parliamentary system as opposed to a perhaps futile effort to defend Chang's right to succeed Rhee. The Liberals also reportedly plan to withdraw objectionable features of proposed amendments to the National Election Law if the opposition will not obstruct the constitutional amendment.

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